

Service Date: August 24, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Montana)	UTILITY DIVISION
Public Service Commission's)	
Investigation of Federal Tax)	DOCKET NO. 86.11.62 (9)
Reform Impacts on Public)	
Utility Revenue Requirements.)	ORDER NO. 5283a
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ORDER ON MOTION FOR RECONSIDERATION

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FINDINGS OF FACT

1. On July 27, 1987, the Montana Public Service Commission (MPSC or Commission) approved Interim Order No. 5283, which disposed of all matters then pending in Docket No. 86.11.62 (9).

2. On August 10, 1987, Montana Power Company (MPC, Company, or Applicant) filed with the Commission its Motion For Reconsideration of Interim Order 5269a (sic) and Brief in Support Thereof (Motion). (The Commission notes that the number 5269a was a typographical error and should have read "Interim Order 5283.")

The Motion requested reconsideration of the following two matters:

- 1.) Rate of Return on Equity
- 2.) Application of Decrease to Stauffer

3. The Commission's decision concerning MPC's motion for reconsideration of the application of the interim decrease to Stauffer Chemical Company is the subject of Order No. 5283b. The subject of this order, Order No. 5283a, is MPC's motion for

reconsideration concerning the approved interim rate of return on equity.

Rate of Return on Equity

4. In its Motion, the Company stated that the Commission "abandoned its traditional position, as well as its interim increase regulations," in approving an interim return on equity different from the rate most recently approved. The Company also describes the Interim Order as "valiantly" attempting "to rationalize" the Commission's decision. In its Motion, the Company then discusses its view that the Commission utilizes two different standards, depending on whether an Interim Order calls for an increase or a decrease. After giving its several observations and expressing its complaints on the matter, MPC requested that either the Commission reconsider its decision concerning return on equity or establish regulations which would allow the updating of rate of return on equity in interim proceedings in the same manner that the updating of the capital structure has been allowed.

5. In making its decision concerning the allowed return on equity in this Interim proceeding, the Commission was quite cognizant of the arguments espoused by MPC in its Motion, and, in fact, the Commission gave very serious consideration to those concerns during the decision-making process.

6. MPC characterizes the Commission's actions as "abandoning" its usual way of determining an interim rate of return on equity, and the Company describes the Interim Order as "valiantly" attempting to justify the Commission's decision. In no way did the Commission abandon its general principals or guidelines of proper ratemaking in interim proceedings. Based on the information at hand from industry data and recent Commission decisions concerning return on equity, the Commission conservatively reflected an

apparent reduction in the cost of equity that has occurred since the last approval of MPC's return on equity. The last time the Commission had the opportunity to determine MPC's rate of return on equity based on the testimony of expert witnesses from both MPC and Montana Consumer Counsel was in Docket No. 83.9.67, over three years ago. In Docket No. 84.11.71, the Commission, based on a stipulation reached between MPC and Montana Consumer Counsel, approved a return on equity of 14.25 percent. Interim Order No. 5283 quite adequately describes the related events that have occurred during that span of over three years. After much discussion and analysis, the Commission chose not to ignore the events that had been occurring in the capital markets and had accordingly been reflected in the Final Orders issued by the Commission during that same time frame.

7. MPC's motion requests that the PSC allow updating ROE "in the same fashion that the Commission has consistently allowed updating of the capital structure." This argument is based upon a faulty assumption. The Commission does not automatically update capital structure. Updating has been allowed because it has been reasonable to do so. In the present case the Commission gave careful consideration to MPC's capital structure revision and approved it only reluctantly. In matter of fact, the reduced ROE is a major reason that the updated capital structure was permitted.

8. On the surface, the arguments made by MPC in the second paragraph of page two of its Motion have certain merit, but the Company's concerns must be fully analyzed, as the Commission did in making its equity rate determination, to gain a total perspective of the issues.

9. The first two sentences of the paragraph in question state that in the past, at least since the interim rules were promulgated, neither MPC nor other utilities have received an interim increase which reflected anything but the previously approved rate of return on equity. In all those cases, the previously approved return on equity was viewed by the Commission as a reasonable and fair level based on the information available to the Commission at that time.

10. The next part of that paragraph states that the Commission did not allow even conservative interim increases in the cost of equity during time periods when the cost of capital was apparently increasing. Again, the circumstances of the times in question, no doubt the early 1980's, were somewhat different than the time period between Docket No. 83.9.67 and Interim Order No. 5283. In the early 1980's, utilities were typically filing rate cases every year, with one of the stated primary reasons for doing so being the increasing cost of capital. In fact, in one instance, an electric utility filed a new general rate case before the Final Order in the previous year's general filing had been issued. As for MPC, it filed for rate increases in 1980, 1982, 1983, and 1984.

These nearly annual filings allowed for the cost of equity to be examined between relatively short periods of time. The approved interim returns on equity for all utilities during that time typically represented a rate that had been approved on a final basis only months before. Therefore, those interim cost levels were quite current and certainly within a range of reasonableness compared to what had happened in the capital markets between the last final order and the following interim order. In this current

case, however, over three years have passed since MPC's cost of equity has been examined. The Commission, therefore, for the sake of responsible ratemaking, conservatively adjusted MPC's rate of return on equity on an interim basis to reflect what the Commission has perceived to have been happening in capital markets over the last three years.

11. The final part of the Motion paragraph in question states that the utilities were unaware of any option for interim requests other than to prepare them using previously approved equity rates of return in accordance with the Commission's regulations. The Commission emphasizes that utilities should always strive to conform with the existing regulations. The Commission also feels an obligation to verify utilities' compliance with those regulations and to determine the reasonableness of the various aspects of a filing in determining proper interim rate increases or decreases. A utility is always free to file, along with its routine compliance, a request to depart from established precedent on the basis of unique circumstances.

12. Finally, the Company, on pages two and three of its Motion, requests that the Commission either reconsider its decision on return on equity in Interim Order No. 5283 or establish regulations which would specifically allow the updating of the rate of return on equity, whether up or down, in the same fashion that the Commission has consistently allowed updating of the capital structure. Concerning the first request, based on the above discussion in this Order, the Commission DENIES the Company's request to use the last approved return on equity of 14.25 percent and finds 13.00 percent return on equity to be proper in this

interim proceeding. Concerning the second request, the Commission finds absolutely no deficiency in the current rules and regulations and, therefore, DENIES the Company's request to change them.

CONCLUSIONS OF LAW

1. The Applicant, Montana Power Company, furnishes electric service to Montana consumers, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Title 69, Chapter 3, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Motion For Reconsideration of portions of Interim Order No. 5283 by the Applicant, Montana Power Company, concerning the rate of return on equity granted in Interim Order No. 5283, is hereby DENIED in all aspects.

DONE IN OPEN SESSION at Helena, Montana, this 21st day of August, 1987, by a vote of 3 - 2.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.